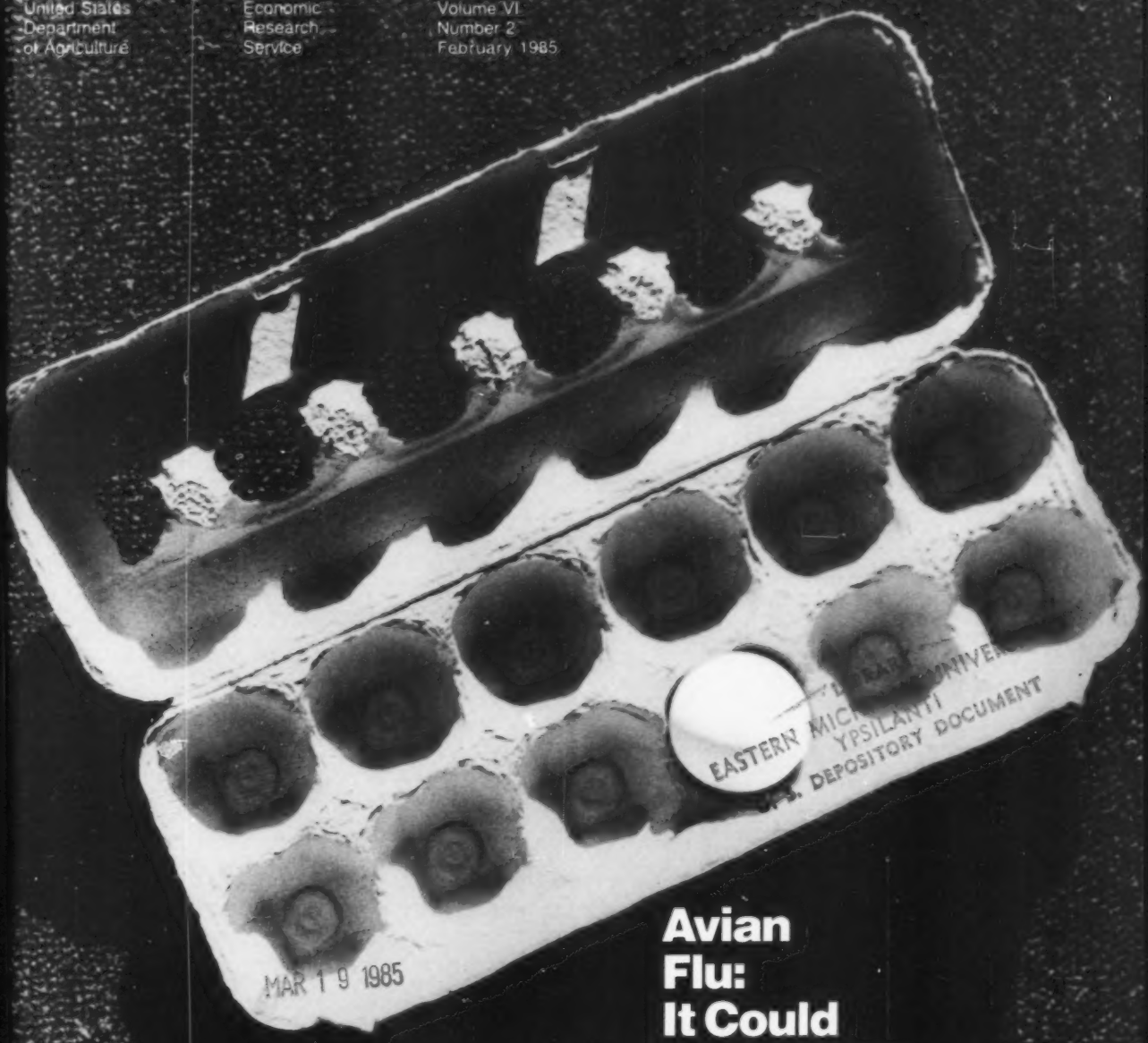
A 93.33/2:
6/2
DOCUMENTS

FARMLINE

United States Department of Agriculture
Economic Research Service
Volume VI
Number 2
February 1985



Avian Flu: It Could Have Been Worse

Are Farm Credit Programs Outdated?
page 16

Editor
Eric Van Chantfort

Assistant Editors
Ellen Banker
Doug Martinez

Editorial Assistant
Martha R. Evans

(202) 447-8915

Contents of this magazine may be reprinted without permission.

FARMLINE is published 11 times a year by USDA's Economic Research Service. Subscription price is $18 to U.S. addresses ($22.50 foreign). Order from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Ask for *FARMLINE* magazine and make your check payable to Sup't. of Documents. For faster service, call (202) 783-3238 and charge your subscription to MasterCard or Visa.

Renewal notices are mailed about 90 days before subscriptions expire. Only one notice is sent. It must be returned promptly to ensure uninterrupted service. Check your mailing label to find out how many issues remain on your subscription. You should receive a renewal card before *ISSDUE002*. The *002* means you have two more issues coming.

Send questions, requests, and editorial comments to *FARMLINE*, Room 400 GHI Bldg., USDA, Washington, D.C. 20250. Please include your mailing label with change-of-address and other requests related to your subscription.

The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *FARMLINE* has been approved by the Office of Management and Budget through March 31, 1987. Use of commercial or trade names does not imply approval or endorsement by USDA.

PERSPECTIVES

FAILURES AMONG AGRICULTURAL BANKS are few and far between, but they are increasing, says economist Jerome Stam of the Economic Research Service. "As a group, the ag banks are in sound condition. Their profits are adequate, and so are their capital reserves and their liquidity. Some of them, however, are slipping into the problem category as they're faced with a rising tide of delinquent loans and loan losses."

The problems of ag lenders reflect the problems in agriculture—indebtedness and a cash flow squeeze on many farms, and depressed sales for businesses that serve farmers or farm communities. Banks located in California, the Corn Belt, and the Northern Plains appear to be encountering more severe loan repayment problems than banks in other regions. "The unfavorable trends," Stam says, "are expected to continue this year at banks whose loan portfolios are strongly influenced by poor farm conditions."

Until recently, the failure rate among ag banks lagged behind the general bank failure rate. In 1983, only 6 of the 44 bank failures were ag banks (these figures exclude mutual savings banks). In the first half of 1984, just 8 of 42 failures involved ag banks. During the last half, however, 32 banks failed, and 15 were ag banks.

Cause for alarm? Stam says it's cause for concern—not alarm. He points out that failures represent a small fraction of the more than 4,000 banks that are classified as agricultural by the Board of Governors of the Federal Reserve System. Moreover, the overall trend of bank failures is up, so it's not surprising that some ag banks are in trouble. In 10 years, from 1971 to 1980, a total of 83 banks failed (these figures include mutual savings banks). From 1981 through 1984, 179 banks failed.

"**Various explanations** have been offered," says Stam, "for the recent increases in problem or failed banks, including greater competition from deregulation, the severity of the recent recession, the unevenness of the recovery as certain regions and industries lag behind, and continued high real interest rates."

However, urban banks may be turning the corner, and the same favorable trend cannot yet be seen for the ag banks. Stam explains: "The data for 1984 show that banks more heavily involved in farm lending tended to have a higher proportion of delinquent loans, and their recent delinquency rates had risen sharply. Meanwhile, the rates for the more urban banks had declined." At the beginning of 1984, ag banks accounted for 24% of all "problem banks." By December, they made up 36% of problem banks.

The Farm Credit System has also experienced growing economic stress. Loan losses and late payments are up to levels that "are very high by historical standards." A number of Production Credit Associations (PCA's) have been liquidated, others have merged, and a sizable portion are under financial stress. Federal Land Banks (FLB's), too, have been affected by lower earnings, reflecting greater competition from other lenders, the decline in farm real estate values, and low turnover rates in the real estate market. Both PCA's and FLB's, Stam says, have set aside substantial reserves to cover loan losses, but without some financial relief, "the credit problems that have faced the FCS during the past 2 years will continue."

FmHA continues to provide a safety valve, allowing other lenders to shift and refer problem borrowers to the federal program. In June 1984, about 35% of FmHA's loan caseload was delinquent. Four years earlier, the delinquency figure was about 17%, Stam reports. Ten percent of FmHA's farm program borrowers received some form of debt restructuring in each of the last 2 years, but relatively few are being foreclosed. Some 2.5% of borrowers gave up farming in fiscal 1984, and only a fraction of those due to foreclosure.

"**Future agricultural loans** may become increasingly more concentrated as fewer borrowers have larger loans and lenders seek out the lower risk farmers," Stam says. "Commercial lenders in agriculture in 1985 have to draw upon resources accumulated during stronger periods to weather the current high level of problem loans, but the industry's long-term viability remains strong." Of the Farm Credit System, he says that current loan losses, mergers, and consolidations are very painful, but the FCS will come through possibly "in a better position to earn long-term profits in the changing financial environment of agriculture."

A 93. 33/2:
6/2

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Avian Influenza: It Could Have Been Worse *by Hilary Sheevers* 4

The bill for government eradication of the avian flu outbreak came to $60 million, but that may be a bargain. Economist Floyd Lasley says that an unchecked epidemic could have enveloped the East, threatened a major portion of the U.S. poultry industry, and cost consumers billions of dollars.

A Volume-Up, Value-Down Export Outlook *by Ellen Banker* 5

The good news is that U.S. agricultural export volume is expected to increase in 1985 for the first time in 5 years. The not-so-good news is that lower prices will depress export earnings, which may drop about $1.5 billion from last year.

Sorghum's the One that Can Take the Heat *by Ellen Banker* 8

Among U.S. feed grains, sorghum is second only to corn. Corn is number one because it offers a higher yield and a higher market price. Sorghum's advantage is that it can survive in hot, dry areas where corn can't. That's a plus for sorghum, but it hasn't prevented sorghum stocks from growing and government price support expenditures from rising.

The Bittersweet Taste of Sugar Policy *by Doug Martinez* 12

Preparing a sugar policy that meets everyone's taste is always an elusive exercise. This year, the exercise will be played out in a new setting dominated, perhaps, by the theme of farm policy reform—a theme that poses a challenge to the traditional allocation of benefits among producers, processors, refiners, foreign suppliers, sugar users, and taxpayers.

Reassessing the Federal Role in Farm Credit *by Eric Van Chantfort* 16

Federal farm credit programs began decades ago and helped finance a technological revolution in agriculture. Today, however, conditions are different, and some analysts are saying that the time has come for reevaluating Uncle Sam's role in the money lending business. That role is a major one, particularly in agriculture.

DEPARTMENTS

Agricultural Roundup: Gleanings from USDA's National Outlook Conference 6

Reports in the News: Trade and Aid; Export Profile of Cameroon 15

Farmline Trends: Monthly Price Monitor 19

SPECIAL IN THIS ISSUE

1985 Reports Calendar 10

Tear it out and keep it handy. This is your guide to release dates of situation and outlook reports of the Economic Research Service, crop and livestock reports of the Statistical Reporting Service, and supply-demand estimates of the World Agricultural Outlook Board.

LIBR
EASTERN MICHIGAN UNIVERSITY
YPSILANTI
U. S. DEPOSITORY DOCUMENT

Avian Influenza: It Could Have Been Worse

When is a $60 million government program a bargain? When it saves consumers as much as $5.3 billion and industry $450 million.

That's what government eradication of the 1983-84 outbreak of avian influenza saved poultry consumers and industry, says economist Floyd Lasley of USDA's Economic Research Service. Lasley's findings, based on a standard economic analytical model, indicate that producers and consumers experienced less than 10 percent of the loss that might have resulted from a 6-month widespread epidemic.

The recent outbreak of avian influenza was detected in October 1983. Although two isolated cases were reported early last month, the virus was virtually eliminated, Lasley notes, by midsummer 1984. Eradication efforts included the quarantine of 4,700 farms in Pennsylvania, Virginia, New Jersey, and Maryland. These states normally account for more than 4 percent of U.S. broiler production, about 6 percent of U.S. laying hens, and almost 5 percent of U.S. turkey production.

Twelve million layers, almost 4 million broilers (young meat chickens), and about 1 million turkeys were destroyed to prevent the spread of the influenza—an acute, highly contagious virus that attacks the repiratory system and is up to 90 percent lethal to poultry. The disease does not harm humans.

Poultry producers incurred $55 million in direct losses on birds and eggs, plus additional costs for cleanup, disinfection, and transportation. In addition, the outbreak caused financial losses to hatcheries, feed suppliers, supply firms, and processors.

As a result of reduced egg and poultry meat supplies, consumers also paid: Higher prices for eggs and poultry, as well as beef and pork, raised retail expenditures for these items by an estimated $349 million. Beef and pork prices rose in response to increased demand as consumers replaced harder to find poultry products with red meats.

The federal eradication program cost $20 million for the program's administration and $40 million for indemnities (money that helped offset growers' costs for destroyed birds). The $60 million total, says Lasley, is dwarfed in comparison to the potential cost of an outbreak in which there was no federal eradication program.

The resultant epidemic, he says, could have enveloped the eastern United States within 6 months, threatened the survival of a major portion of the poultry industry, put a halt on exports, disrupted markets, and caused producer losses reaching over $500 million—nine times those suffered in the actual outbreak.

But consumers would have borne the greatest cost burden had the outbreak gone unchecked. Lasley contends that a sudden drop in poultry and egg supplies might have cost around $5.6 billion at the retail counter, or about 16 times the estimated impact of the price increases that occurred.

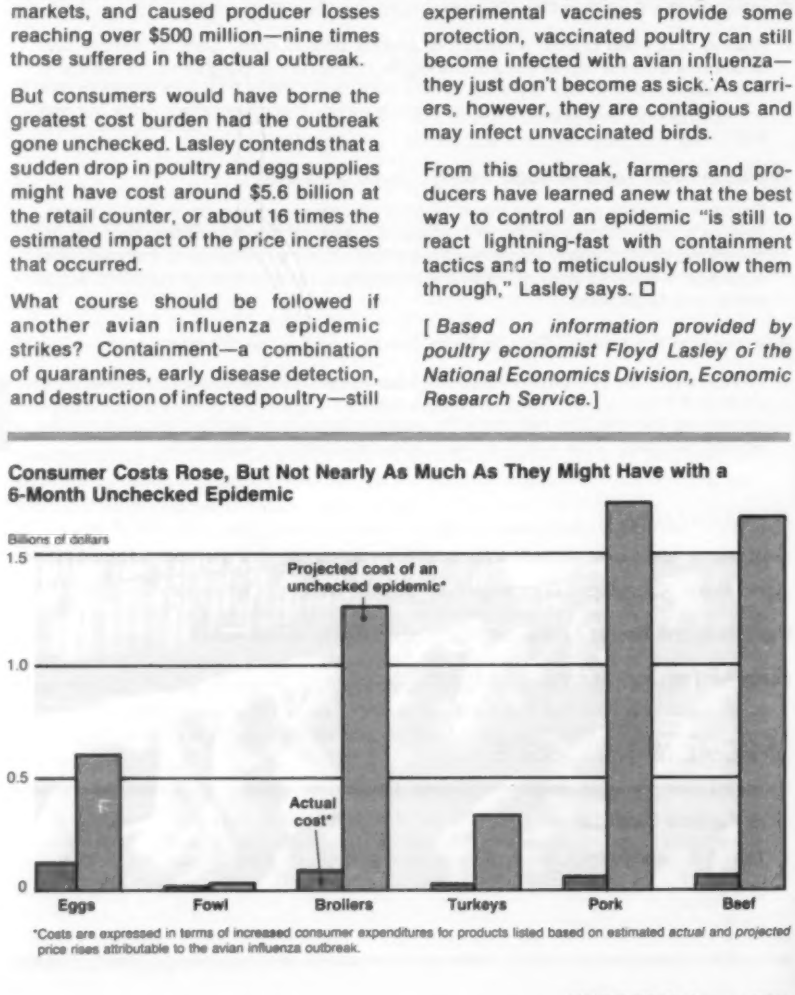
What course should be followed if another avian influenza epidemic strikes? Containment—a combination of quarantines, early disease detection, and destruction of infected poultry—still seems to be the best answer, according to Lasley. Other future industry safeguards could include: (1) enlarging poultry farms so a feed truck can empty a full load at each farm to reduce the chances of spreading contamination from one farm to another; (2) separating smaller houses geographically so fewer birds would become contaminated at one time; and (3) separating breeding stock over different areas.

A vaccine sounds like a possible solution, but its development is further down the road, Lasley says. Although current experimental vaccines provide some protection, vaccinated poultry can still become infected with avian influenza—they just don't become as sick. As carriers, however, they are contagious and may infect unvaccinated birds.

From this outbreak, farmers and producers have learned anew that the best way to control an epidemic "is still to react lightning-fast with containment tactics and to meticulously follow them through," Lasley says. □

[*Based on information provided by poultry economist Floyd Lasley of the National Economics Division, Economic Research Service.*]

Consumer Costs Rose, But Not Nearly As Much As They Might Have with a 6-Month Unchecked Epidemic



*Costs are expressed in terms of increased consumer expenditures for products listed based on estimated *actual* and *projected* price rises attributable to the avian influenza outbreak.

A Volume-Up, Value-Down Export Outlook

Volume up, value down. That's how U.S. agricultural exports are shaping up for fiscal 1985, according to USDA's first forecast of the season, issued in early December. The new fiscal year began on October 1.

"The good news is that farm export volume will increase for the first time in 5 years," says trade analyst Steve MacDonald of the Economic Research Service. The projection—at 149.5 million tons—represents a 6-million-ton increase from fiscal 1984's level. However, MacDonald adds, lower prices for many commodities are partly responsible for the prospective volume gain, and those lower prices are going to depress export earnings. Trade value may drop to around $36.5 billion, down from $38 billion in 1984.

"In terms of sales volume, the big gains will be in coarse grains," MacDonald says. Shipments of soybeans and soybean products are also likely to rise after 2 years of declining tonnage. Modest increases are expected for horticultural exports and livestock, poultry, and dairy products. MacDonald also identifies the major export volume losers, wheat and cotton. Cotton production abroad is up nearly 8 million bales—4 million bales in China alone—to an all-time record. Foreign exports of cotton are likely to rebound sharply, with the greatest increases from China and Pakistan.

U.S. wheat and flour exports will also face greater competition. Large world supplies, record production in the European Community (EC), and weakening world demand are the reasons. U.S. export volume for 1985 is expected to drop around 2 million tons, while value may decline by more than half a billion dollars, according to MacDonald.

Even among the volume gainers, increased sales won't make up for lower prices, he says. Take coarse grains. Export tonnage is forecast to rise about 10 percent, yet value may do no better than match last year's $8.2 billion.

The good news: Farm export volume will increase for the first time in 5 years.

Major Customers

Japan and the EC will again be our leading customers, although the value of U.S. agricultural exports to both will probably drop from 1984's levels.

Last year's export value to Japan—at $6.9 billion—was a record. Although the volume will remain about the same, this year's value could drop to around $6.5 billion.

In the EC, record wheat, barley, and rapeseed harvests and a strong American dollar will dampen imports of U.S. agricultural products. Overall, our export value could drop to $6.5 billion from 1984's $6.7 billion. The decline will come mostly in feed grains and wheat. In fact, wheat sales could drop by as much as 20 percent, MacDonald says.

A bright spot in the U.S. export picture is the Soviet Union. Following its sixth consecutive poor harvest, Soviet wheat and feed grain imports are both projected at record or near-record levels, MacDonald says. U.S. export sales to the USSR more than doubled to $2.5 billion in 1984 and are expected to climb again this year to perhaps $2.8 billion.

The only other significant increase will come from buyers in the Middle East-North Africa region. Our Latin American and East European customers are expected to spend less on U.S. farm products than they did last year.

What's Ahead?

Is there any improvement ahead?

U.S. agricultural export volume dropped in 1981, 1982, 1983, and 1984. The increase forecast for this year is encouraging, MacDonald says, even though volume may be about 14 million tons short of 1980's record.

He cautions that many of the problems that depressed sales since 1980 are still with us: a strong U.S. dollar, tight credit and serious debt problems in many developing nations, increased competition from greater production abroad, and growing trade barriers.

"In the bearish demand and trade environment of the 1980's, U.S. farm exports depend more than ever on aggressive marketing and competitive pricing," adds economist Patrick O'Brien.

"Without improvements in our competitive position, growth in U.S. farm exports over the remainder of the decade could lag well behind growth in world trade and growth in the sales of our competitors. In that case, we might not match the 1981 record in export value in real (inflation-adjusted) terms until the early 1990's. On the other hand, with a concerted effort to price competitively and market more aggressively, U.S. farm exports could equal or possibly surpass the 1981 record by the late 1980's." □

[*Based largely on information provided by economist Steve MacDonald of the International Economics Division, Economic Research Service.*]

Export Volume Will Be Up, But Value Will Be Down

	Fiscal years					
	1980	1981	1982	1983	1984	1985[1]
Value, in billions of dollars	40.5	43.8	39.1	34.8	38.0	36.5
Volume, in millions of metric tons	163.9	162.3	157.9	144.8	143.6	149.5

[1] Forecast.

AGRICULTURAL ROUNDUP

GLEANINGS

...on farm policy, exports, and the farm economy from presentations by speakers at USDA's 61st annual Agricultural Outlook Conference, held December 3-5, 1984, in Washington, D.C.

"THE INTERNATIONAL macroeconomic and financial environment has shifted dramatically over the last 4 years away from the expansionary setting of the 1970's toward contraction in the first half of the 1980's. The shift has been sharp enough and its impacts far-reaching enough to generate the sharpest slowdown in world agricultural trade and losses in U.S. farm exports since World War II.

"...In the slow-growth environment likely over most of the 1980's, U.S. farm exports will depend more than ever on aggressive marketing, competitive pricing, and trade-oriented farm policies. A competitive U.S. agriculture could return to a commanding position in the export market. However, without change in many of these policy-sensitive areas, the United States could well continue to serve as the residual supplier in a bearish market into the 1990's." *Patrick O'Brien, deputy associate administrator, Economic Research Service, USDA.*

"THE YEARS AHEAD are likely to see U.S. agriculture more closely tied to other sectors of the economy around the world and become even more closely linked to agricultural developments in other countries. Greater interdependence and more intense competition for global agricultural markets may be spurred by world-wide adoption of new productivity-enhancing technology. It is within this environment that new legislation will be considered—an environment that already promises large global agricultural production capacity and slow demand growth, but one that also holds much uncertainty about the future. " *James Donald, chairman, World Agricultural Outlook Board, USDA.*

"THE SIGNIFICANCE of this nation's growing dependence on trade is that it gives us a more open economy—more open to forces from the international economy. That means that our domestic economy is increasingly beyond the reach of domestic policy. And agriculture has probably illustrated this point about as well in recent years as any sector in the economy. Despite enormously costly commodity programs, agriculture is doing poorly, and largely because international factors are literally swamping the effects of the domestic programs.

"...We desperately need to begin the process of reforming and strengthening our international institutions so a more sensible international economy can evolve. Unfortunately, as a nation, we have become greatly disillusioned with international institutions at precisely the time in which they have become increasingly important to us. We cannot long stay with this disillusionment. We need to get on with the world as it is, not as we would like it to be." *G. Edward Schuh, director of agriculture and rural development, The World Bank.*

"WE NEED TO EMPHASIZE sales overseas because we cannot hold excess stocks, provide a price umbrella for the world, try to cut back production, and expect to compete with countries that carry no government stocks and encourage all-out production. Also important to agriculture's future is the need for our nation to exercise sound monetary and fiscal policies that will lower interest rates and the value of the dollar in relation to other currencies so our agricultural exports can increase." *Dean Kleckner, president, Iowa Farm Bureau Federation.*

"IN MY VIEW, we are in the midst of the most competitive decade in farm export markets that the world has ever seen. Virtually everywhere in the world, farmers have more production potential and more incentive to use it. New developments in production technology, aided by genetic engineering, mean that record-shattering increases in production may be the norm rather than the exception.

"...I think U.S. farmers welcome competition, as long as they have a chance to compete on equal terms. Unfortunately, that has not been the case. Many governments have reacted to domestic pressures for farm income support by restricting imports or subsidizing exports—or both ...However, we are [also] going to have to recognize that one of the major stumbling blocks to this goal has been of our own making. Our farm support system has been an enticing incentive for our competition...When U.S. supports are above market levels, competitors can establish a price below the U.S. rate and enjoy a price bonus in the prevailing market. Needless to say, our competitors have put their advantage to good use—at the expense of our farmers." *Daniel Amstutz, Under Secretary, International Affairs and Commodity Programs, USDA.*

"I JUDGE THAT these [current commodity] programs, on balance, have been a failure, spelled F-A-I-L-U-R-E for those who may doubt my meaning...By restricting production and increasing price, these programs have conceded market growth to rival exporters. Cotton is a notorious example. Before these programs began, the United States produced more cotton than the rest of the

world combined. In 1984, the rest of the world produced five times as much cotton as the United States.

"...Despite the deepest acreage cut and the largest outpouring of government money in history, farmers are experiencing the most financial stress since the Great Depression. The charge that these programs have failed economically is overwhelming...It is time for some small boy to come forward and observe that the emperor is without clothes." *Don Paarlberg, past chief economist, USDA, and professor emeritus, Purdue University.*

"ALTHOUGH THE PIK (payment-in-kind) program provided much needed temporary relief to many farmers during the past year, general economic conditions within the farm sector remain weak, and current prospects indicate little improvement is likely in the months ahead. Net cash income, which was a nominal record high in 1983 largely due to PIK, is expected to fall [in 1984] and again in 1985 as farm output rises and supplies begin to build. The fundamental problem in U.S. agriculture—commodity supplies exceeding demand—is expected to be the main reason for lower net cash income in the year ahead." *Gary Lucier, agricultural economist, Economic Research Service, USDA.*

"THE 1978-81 PERIOD—years when the 1977 Agricultural Act operated—might be characterized as one of stagflation, external shocks, and relatively strong export markets. The 1982-84 period—part of the life of the 1981 Agricultural Act—on the other hand, might be described as a time of high real interest rates, a strong dollar, weak exports, lower inflation, and other phenomena associated with large, persistent federal deficits.

"...I see no strong possibility for relief from the financial stress that has beset parts of the U.S. farm economy recently. Agricultural exports could be helped by a decline in the value of the dollar in 1985 or 1986 or by tight supplies elsewhere in the world. However, I fail to see any developments unfolding in 1985 that would cause a decline in real interest rates. Hence, the debate on [the] farm bill is likely to occur against a backdrop of financial distress in parts of the farm economy." *William Dobson, professor and head, Department of Agricultural Economics, Purdue University.*

"AT THE BEGINNING OF 1984, 6.6% of all farm operators had debt-to-asset ratios of 70% or more. This is about twice the percentage of farmers which fell into this leverage category 4 years earlier. Over 17% of all farm operators had debt-to-asset ratios which were 40% or above on January 1,1984. This compares with 12.2% in 1980. Higher farm debt and lower asset values in many regions of the country pushed many farmers into the higher leverage situations. These numbers suggest that between 15% and 20% of all farmers are facing financially stressful conditions, requiring decisive steps to restructure their balance sheets to improve cash flow and profitability." *Stephen Gabriel, agricultural economist, Economic Research Service, USDA.*

"UNDER PRESENT CONDITIONS...agriculture will not prosper. Fewer than ever will survive. Agriculture, for the most part, is not asking for the moon, they are only asking for a chance—a chance to succeed at what they do best. Agriculture is best at providing the nation with high quality food at very reasonable prices. Agriculture is best at feeding the hungry people of the world. Agriculture even provides a decided military advantage in this unstable world. Agriculture is best as the support system for 22% of the nation's jobs.

"...The major reason for the gloomy outlook is the high rate of interest. It drives domestic producers' prices and agricultural businesses' costs far too high. It is making the dollar so strong, producers and exporters are noncompetitive in the international trade arena...Our real problem is the huge federal deficit which places tremendous pressure on the demand for money and maintains interest rates for farmers and for other sectors of the economy at very high levels." *Donavon Loeslie, past president, National Association of Wheat Growers; vice president, Minnesota Association of Wheat Growers.*

"FARM COMMODITY PROGRAMS are pursued to stabilize commodity prices and assure adequate farm incomes. National conservation policies are directed toward reducing excessive soil erosion and water use to maintain future agricultural productivity, as well as to improve water quality. Although we can pursue both policy objectives simultaneously, care must be exercised in program design to prevent conservation and other farm programs from working at cross-purposes." *John Miranowski, director, Natural Resource Economics Division, Economic Research Service, USDA.*

"THE 1985 FARM LEGISLATION will be one of the most debated issues in Congress...Groups which have traditionally never been active in farm legislation are now putting forth a full-scale lobbying effort. Compromise will be difficult and time-consuming. But we are all in this together. While we all have our own opinions, we must step back and consider what is best in the long-run for agriculture. If the whole does not survive, neither will any special interests." *R.R. "Barney" Baxter, president and chief executive officer, CF Industries, Inc.*

Sorghum's the One that Can Take the Heat

Among U.S. feed grains, sorghum is second only to corn, but it's a distant second.

This past fall, American farmers harvested about 7.5 billion bushels of corn. The sorghum crop totaled around 813 million bushels—roughly 1 bushel of sorghum for every 9 or 10 of corn.

Sorghum production is concentrated in certain areas, and it's rarely seen in most other parts of the country, according to USDA economist Keith Collins of the Economic Research Service. However, Collins adds, sorghum's relationship to corn makes it an important feed grain. It can substitute for corn, and that's one reason why it is tied to corn in government feed grain programs.

Called "grain sorghum" by some and "milo" by others, the plant grows to about 5 feet and bears golden or rust-colored grain. Domestically, it's used as feed for livestock and poultry.

Although the crop grows best in sandy soil, it can be produced under a wide range of soil and climatic conditions. Sorghum's major advantages: It requires less water and fertilizer than corn. The drawbacks: lower yields and higher production costs per bushel.

Corn is number one because of spectacular yields that average out nationwide at more than 100 bushels an acre, compared with 50-60 bushels per acre for sorghum. In addition, market prices for corn average 5 to 10 percent higher.

Yet sorghum's advantages sometimes offset its drawbacks. "Climate can be a real equalizer," Collins says Under certain conditions, sorghum is a more profitable choice than corn.

In extreme heat, when corn can't survive without water, sorghum usually can. In drier areas where irrigation is too expensive or not available, sorghum is a good alternative. This difference has largely determined where sorghum is grown.

Subtle Shifts in Production

Production is concentrated in the central and southern Plains, where rainfall is low and variable. Yields have increased dramatically over the decades—from 23 bushels per harvested acre in 1950 to nearly 60 bushels today. As a result, production has increased dramatically without corresponding increases in acreage.

In 1950, 16 million acres of sorghum were planted and 233 million bushels were harvested. Again, in 1984, 16 million acres were planted, yet more than 800 million bushels were harvested. Plantings have ranged between 12 and 27 million acres since 1950.

The top producing states of Texas, Kansas, Nebraska, and Missouri account for about 80 percent of all U.S. sorghum. But farmers in the Mississippi Delta are shifting to sorghum in growing numbers.

Economist Collins considers this very significant and cites figures that compare 1982 and 1984 acreage in the delta region. Acreage in Arkansas, Louisiana, Mississippi, and Missouri increased to 2.6 million acres from 1.5 million, up 77 percent, while total U.S. sorghum acreage rose only 1 percent.

Continued expansion is likely, according to Collins, and sorghum's heat resistance is only one reason. Another is double-cropping.

"Many Southern farmers who have double-cropped wheat and soybeans are switching to double-cropping wheat and sorghum," Collins says. An increase in nematode problems with soybeans has cut yields. Rotating soybeans with sorghum helps reduce nematode infestations.

Also, because the second crop in a double-cropping system has to grow during the hot, dry summer months, the drought resistance of sorghum is a factor. Finally, Collins points out that the double-cropping of wheat and sorghum allows the farmer to grow two crops—both with government price-support programs—on the same acre in 1 year.

Sorghum's major U.S. market is as a feed concentrate for beef cattle. In terms of feeding efficiency, sorghum is about 95 percent as efficient as corn in livestock rations. About 55 percent of domestic feed use of sorghum goes to beef, and sorghum's share of all concentrates fed to beef is around 20 percent.

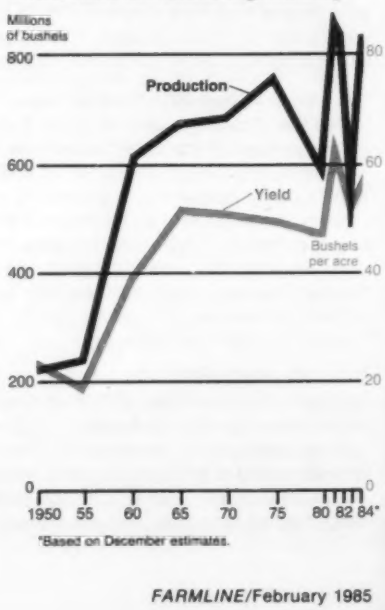
Although sorghum competes primarily with corn in terms of markets, farmers who plant sorghum generally have a wider range of cropping options.

Sorghum's competition varies. In Texas, winter wheat, corn, and cotton are sorghum's most important competitors. In Missouri, cotton, wheat, and soybeans compete for acreage. In California and Oklahoma, cotton is the main competition. And in parts of Kansas and Nebraska, wheat and corn compete with sorghum. Government programs have played a major role in this competition.

Benefits from the Competition

Before the 1960's, sorghum was considered a "basic commodity" in farm legislation, but it was only eligible for

Except for 1983 When PIK Reduced Plantings, Sorghum Production and Yields Have Increased Significantly



*Based on December estimates.

"permissive" support—at the discretion of the Secretary of Agriculture and the availability of funds—rather than the mandatory support most other basic commodities received.

There were no allotments, marketing quotas, acreage reductions, or mandatory nonrecourse loan provisions for sorghum, as there were for wheat, corn, and cotton. Sorghum was usually supported through commodity loans at a lower percentage of parity than were other basic commodities.

But sorghum producers received benefits from the other crop programs because sorghum could be substituted for the other feed grains in the marketplace and in the fields, which tended to keep its price in line with corn. By 1957, production controls on other crops caused the sorghum area to soar to nearly 27 million acres. In short, the program provisions aimed at raising the prices of wheat and corn also supported sorghum prices and production. In effect, corn and wheat provided a price umbrella for sorghum, which could be planted on land not used for the other program crops.

Between 1956 and 1960, sorghum production rose from 205 million bushels to 620 million. Government outlays under the commodity loan program increased considerably. Many producers forfeited their crops (in accordance with the program's provisions) rather than repay the government loans, plus any accumulated interest charges, when market prices did not reach loan rates. As a result, government-held stocks of sorghum soared.

Net costs of the program rose from $136 million in 1955 to $338 million in 1959. The size and the cost of these rapidly accumulating stocks became a public issue.

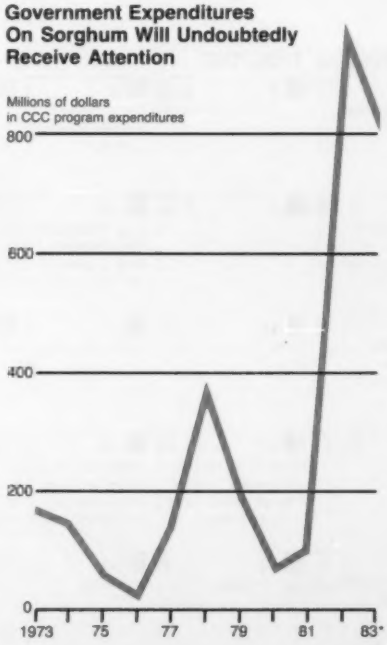
Clearly, corn and sorghum are interchangeable commodities and, eventually, legislators aligned the government programs for both crops, Collins says. Since 1961, sorghum has been subject to virtually the same program provisions as corn. The supports for sorghum have been set using a relationship to those for corn, usually a cost of production index or the 95-percent feed-value relationship.

Today's Problems

"Production in 1984 exceeded 800 million bushels, not too far below the record of 923 million set in 1973," Collins says, citing December USDA estimates. That, plus the 250 million bushels of stocks carried into the season, equal an overall 1984/85 supply of almost 1.1 billion bushels. This season, domestic use and exports are forecast to take only about 710 million bushels. Translated into leftover stocks, this means there will very likely be about 350 million bushels carried over into next season.

Except for 1982, when ending stocks equaled 400 million bushels, such large stocks have not occurred since 1964's 566-million bushel carryover.

Government Expenditures On Sorghum Will Undoubtedly Receive Attention



*Estimate.

"Today's problem is magnified because, while U.S. acreage and production are up, so are production costs, and domestic and export demand have leveled off," Collins says. Current forecasts indicate that 1984/85 season-average farm prices may be down 20-35 cents a bushel from prices in 1983/84.

These factors will probably result in considerable financial stress for some sorghum producers who have struggled with increasing production costs since 1978.

And there's always the issue of government costs which were $989 million in fiscal 1982, $814 million in 1983, and only $75 million (estimated) in 1984. Fiscal 1985 will probably be another year of large government expenditures on sorghum price supports unless, of course, demand somehow increases.

"Demand may increase some this year," Collins says, "but certainly not enough to take care of the supply that will be available."

Domestic demand has been flat for several years because the competition among feed grains has been more intense. Recent wheat surpluses have left wheat prices—on a feed-value basis—about equal to prices for sorghum and corn. Consequently, wheat has become a strong competitor with sorghum in cattle feeding, especially in the Plains where wheat is plentiful.

Exports are the industry's hope, but Collins expects only slight increases in this area. Promising signs of global income growth and rising meat consumption are matched against credit and debt problems in less developed nations. Questions also remain about the competitiveness of U.S. prices—partly determined by the U.S. sorghum loan rate and the foreign exchange value of the dollar. □

[Based on information provided by economist Keith Collins of the National Economics Division, Economic Research Service.]

1985 Reports Calendar
February-July

Titles of Outlook and Situation reports of the Economic Research Service are printed in color. Summaries of reports are released at 3 p.m. on the dates shown. Copies of complete reports are due off press within a week. The World Agricultural Supply and Demand Estimates

FEBRUARY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 Egg Products Poultry Slaughter
4 Dairy Products	5	6 Celery	7 Inputs, Pesticides & Fertilizer	8
11 Crop Production Cattle Grain Stocks Rice Stocks Ag Supply & Demand	12	13 Turkey Hatchery Vegetable	14 Potato Stocks Milk Production	15 Prospective Plantings Sugar Market Statistics FATUS*
18	19 Farm Labor Agricultural Outlook	20 Exports	21 Catfish Wheat Yearbook	22 Livestock Slaughter Cold Storage Cattle on Feed Fruit
25 Eggs, Chickens, & Turkeys	26 FATUS, Annual*	27	28 Ag Prices	

MARCH

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 Egg Products Poultry Slaughter
4 Dairy Products Poultry Slaughter	5	6 Celery	7 Inputs, Pesticides & Fertilizer	8
11 Crop Production Ag Supply & Demand	12 Turkey Hatchery	13 Sugar & Sweeteners	14 Potato Stocks Milk Production	15 Prospective Plantings Sugar Market Statistics FATUS*
18 Hatchery Prod., Annual Agricultural Outlook	19	20 Hop Stocks Catfish Cold Storage, Annual Tobacco	21 Catfish Wheat Yearbook	22 Livestock Slaughter Cold Storage Cattle on Feed Fruit
25 Wool & Mohair Vegetables North America & Oceania	26	27	28 Ag Prices	

MAY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		1 Poultry Slaughter	2	3 Dairy Products Dairy Products, Annual
6 Livestock & Poultry	7 Celery Milk—Prod., Disp., & Income Western Europe	8 Vegetables	9	10 Crop Production Grain Stocks Rice Stocks Ag Supply & Demand
13 Potato Stocks Turkey Hatchery	14 Vegetable Yearbook	15 Sugar Market Statistics Milk Production	16 Feed	17 Agricultural Outlook
20 Wheat	21 Catfish Farm Labor Oil Crops	22 Exports	23 Eggs, Chickens, & Turkeys Peanut Stocks & Processing	24 Livestock Slaughter Cattle on Feed Cold Storage FATUS, Annual*
27	28 Eastern Europe	29 Farm Real Estate, Summary	30 Egg Products	31 Ag Prices

JUNE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 Minn.-Wisc. Mfg. Milk Final 1982-84 Poultry Slaughter Southeast Asia	4 Dairy Products	5 Celery World Food Aid Needs & Availabilities	6	7
10 Crop Production Ag Supply & Demand	11	12 FATUS*	13 Catfish	14
17 Agricultural Outlook	18 Dairy Yearbook	19 Catfish	20	21
24 Eggs, Chickens, & Turkeys	25 Farm Production Expenditures, Summary Report China	26 Cherry Production (Tentative) Peanut Stocks & Processing	27	28

*Foreign Agricultural Trade of the United States.

reports, issued by the World Agricultural Outlook Board, are also printed in color. These reports are released to the press in their entirety on the dates shown. To request subscription information on any of these reports, write: EMS Information, Room 440 GHI Bldg., USDA, Washington, D.C. 20250.

Titles of reports issued by the Crop Reporting Board of the Statistical Reporting Service are printed in black. Complete reports are released, most at 3 p.m., on the dates shown. To request subscription information, write: Crop Reporting Board, Room 5829 South Bldg., USDA, Washington, D.C. 20250.

APRIL

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1 Egg Products Peanut Stocks & Processing Livestock & Poultry
6 …elery	**7**	**8** Vegetables		
13 …ugar & S…weeteners	**14** Potato Stocks	**15** Livestock Slaughter, Annual Milk Production Floriculture Crops Rice		
20 …op Stock …atfish …old Stora…e, Annual …obacco	**21** Eggs, Chickens, & Turkeys World Agriculture	**22** Livestock Slaughter Hogs & Pigs Cold Storage Cattle on Feed Dairy		
27	**28** Peanut Stocks & Processing	**29** Ag Prices		

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 Egg Products Poultry Slaughter	**2**	**3** Meat Animals—Prod., Disp., & Income	**4** Dairy Products	**5** Celery
8	**9**	**10** Vegetables Crop Production Ag Supply & Demand	**11**	**12** Potato Stocks Turkey Hatchery Middle East & North Africa
15 Poultry—Prod., Disp., & Income Cotton & Wool	**16** Milk Production FATUS*	**17** Agricultural Outlook	**18**	**19** Catfish East Asia
22 Cattle on Feed Cold Storage Livestock Slaughter	**23** Eggs, Chickens, & Turkeys	**24** Soviet Union	**25** Peanut Stocks & Processing	**26**
29	**30** Egg Products Ag Prices			

JULY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 Egg Products Poultry Slaughter	**2** Dairy Products	**3**	**4**	**5** Celery
8 Noncitrus Fruits & Nuts—Midyear Supplement	**9**	**10** Crop Production Grain Stocks Ag Supply & Demand	**11** Mink	**12** Turkey Hatchery
15 Sub-Saharan Africa	**16** Milk Production	**17** Agricultural Outlook	**18** Economic Indicators of the Farm Sector, Costs of Production	**19** Vegetables Catfish
22 Cold Storage Cattle Cattle on Feed Livestock Slaughter Oil Crops Yearbook	**23** Farm Production Expenditures, 1984 Eggs, Chickens, & Turkeys	**24**	**25** Peanut Stocks & Processing	**26**
29	**30** Egg Products Livestock & Poultry	**31** Ag Prices		

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
5 …lery …orld Foo… Aid …Needs & …Availabi…ties	**6**	**7** Vegetables Vegetables, Annual Latin America		
12 …TUS*	**13** Turkey Hatchery	**14** Milk Production Sugar Yearbook		
19 …fish	**20** Vegetables World Agriculture	**21** Livestock Slaughter Cold Storage Hogs & Pigs Cattle on Feed		
26 …my Pro…uction …Tentativ… …anut Sto…ks …Proces…ing	**27** Farm Real Estate Market Developments	**28** Ag Prices Ag Prices, Annual		

LIBRARY
EASTERN MICHIGAN UNIVERSITY
YPSILANTI
U. S. DEPOSITORY DOCUMENT

The Bittersweet Taste of Sugar Policy

Preparing a sugar policy that meets everyone's taste is an elusive and probably impossible exercise in any year, given the backdrop of competing interests. This year, however, the theme of farm policy reform poses a challenge to the traditional allocation of benefits as policymakers take a hard look at farm price supports and individual commodity programs.

Among the parties with a stake in the outcome are beet and cane sugar producers and processors, corn sweetener producers, sugar refiners, consumers, taxpayers, and foreign suppliers of sugar to our shores.

Sugar producers and processors are closely allied because of the special nature of the sugar industry.

"The growing and industrial processing of sugarbeets are closely tied to each other. The same goes for sugarcane. No farmer would grow sugarbeets or sugarcane for commercial purposes without a contract for processing," says economist Robert Barry, a sweeteners analyst with USDA's Economic Research Service. "Sugarbeets and sugarcane are just too bulky and too perishable to be traded in the raw state. Thus, growers share in the receipts of sugarcane and sugarbeet processors."

Within the sweeteners industry, two once-rival interests have recently found common ground. "For 40 years, various parts of the industry had a cooperative working relationship. But strong divisions surfaced with the emergence of HFCS (high fructose corn syrup) and the collapse of the U.S. Sugar Act in 1974," says Barry.

"Ironically, in a bold reversal, sugar growers and processors have allied with their erstwhile rival, corn sweeteners, in a united effort to keep sugar price supports. The sugar producers seem to have reconciled themselves to the loss of about a third of their market to corn sweeteners, the maximum technical limit of substitution." Sugar producers are apparently hoping that unity with corn sweetener producers can help protect the rest of domestic sugar production from those who would reduce or remove price supports.

Competing interests include beet and cane sugar producers and processors, sugar refiners, consumers, taxpayers, and foreign suppliers of sugar to our shores.

In sugar's favor, government costs to maintain the industry have been negligible in recent years, even though the current support program provides a premium U.S. price many times higher than the depressed world "free" market price. In fact, duties under the support program have yielded money to the U.S. Treasury. Moreover, consumers have stable supplies of sugar that are lower priced than in some past years.

Still, Barry adds, "some groups have been severely damaged, notably the raw cane refiners. Also, industrial sugar users are chafing at prices they have to pay for U.S. sugar when foreign supplies are available more cheaply." (For more information on world sugar markets, see page 10 of the last issue of *FARMLINE*.)

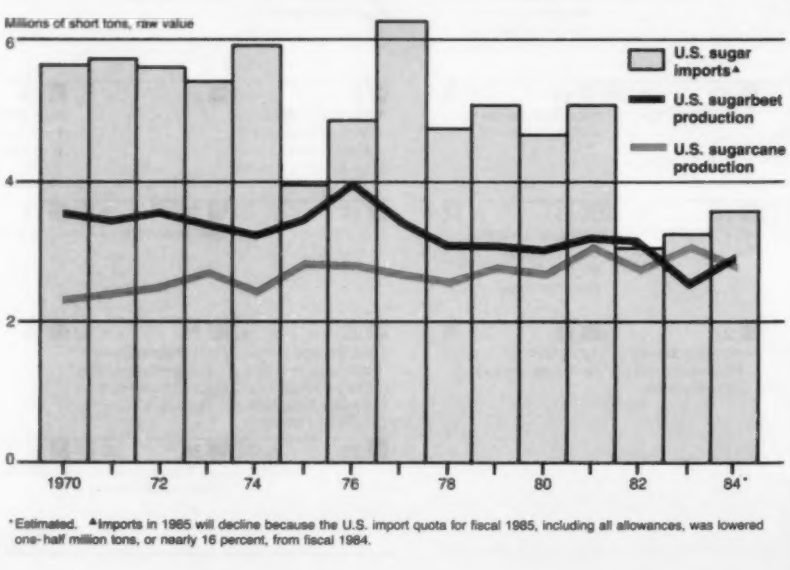
Tradeoffs of Quotas and Costs

One issue in sugar policy involves the use of import quotas to maintain a U.S. supply-demand balance that holds domestic prices above federal loan rates on sugar. Tradeoffs must be made whenever quotas are set or changed. While current policy has kept U.S. production stable (cane up slightly, beet down markedly), imports have dropped sharply.

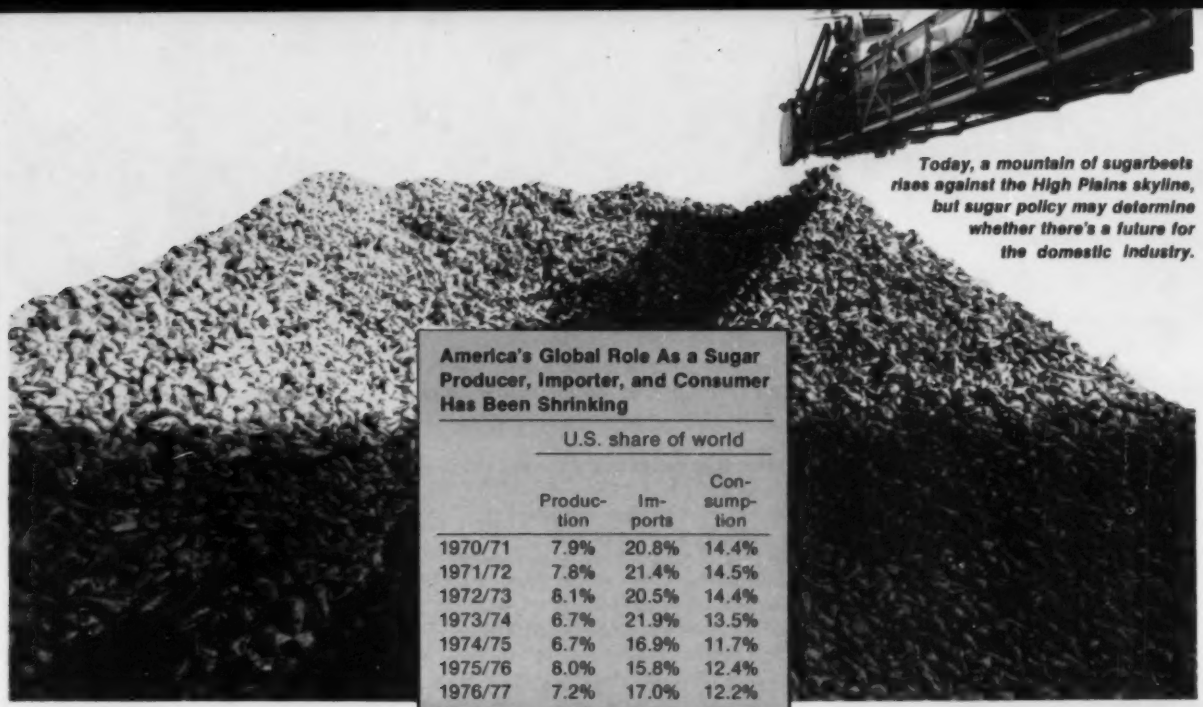
"Lower imports pose a problem for refiners who now are struggling with overcapacity. Four refineries, in fact, have shut down in the last 3 years and additional closings seem likely," says Barry.

Lower imports also pose a dilemma in foreign policy because they undercut

U.S. Production Has Remained Fairly Stable, But Imports Are Declining



*Estimated. ▲Imports in 1985 will decline because the U.S. import quota for fiscal 1985, including all allowances, was lowered one-half million tons, or nearly 16 percent, from fiscal 1984.



Today, a mountain of sugarbeets rises against the High Plains skyline, but sugar policy may determine whether there's a future for the domestic industry.

America's Global Role As a Sugar Producer, Importer, and Consumer Has Been Shrinking

	U.S. share of world		
	Production	Imports	Consumption
1970/71	7.9%	20.8%	14.4%
1971/72	7.8%	21.4%	14.5%
1972/73	6.1%	20.5%	14.4%
1973/74	6.7%	21.9%	13.5%
1974/75	6.7%	16.9%	11.7%
1975/76	6.0%	15.8%	12.4%
1976/77	7.2%	17.0%	12.2%
1977/78	5.9%	17.0%	11.5%
1978/79	6.0%	16.5%	10.9%
1979/80	5.7%	17.7%	10.6%
1980/81	6.2%	16.3%	9.9%
1981/82	5.4%	11.1%	9.4%
1982/83	5.3%	10.1%	8.7%
1983/84	5.3%	10.3%	8.2%

some recent initiatives to help sugar-exporting countries. Tight U.S. import quotas dilute the value of the U.S. price premium made possible by the support program and shared by our foreign suppliers. The price premium is the difference between the world price (f.o.b. Caribbean converted to a New York basis) and the actual price of raw sugar in the United States.

Among the efforts that are undermined by lower imports is the Caribbean Basin Initiative to allow countries in that region to export their sugar to the United States duty free. Another is the Generalized System of Preferences, recently renewed for 8½ years, which assures that almost all countries (except six currently) will not have to pay duties on sugar shipped to the United States.

The quota program helps determine who pays the U.S. price premium. If too much sugar comes into this country, U.S. prices would fall. Should prices drop significantly below the target price established by USDA, large forfeitures of sugar to USDA would likely take place, costing the government money.

That's why sugar import quotas are purposely set at a level "that will accommodate the interests of the U.S. sugar industry," says John Nuttall of USDA's Foreign Agricultural Service. This year, in contrast to last year, the Administration reduced the import quotas.

Costs to Users

But that action brought a chorus of criticism from consumers and industrial sugar users, such as commercial bakers, food processors, and confectioners, who protest what they call artificially high prices in the face of large surpluses and low world prices.

The premium price derived from U.S. sugar supports is estimated to have averaged 12.5 cents per pound, raw value, for fiscal 1983. Given the 1982/83 production of 5.9 million tons, the premium yielded domestic sugar growers and processors an estimated $1.5 billion. Cane and beet growers received about $900 million and processors received the balance, based on the sharing provisions of their contracts. For individual producers, the benefit averaged $98,000 per sugarcane farm, including Puerto Rico, and $43,400 per sugarbeet farm.

Barry says that critics of the federal sugar policy "contend that the sugar price support program costs consumers millions of dollars a year through higher retail prices. However, there are wide differences of opinion as to the exact consumer cost impact."

He says some recent studies do show a significant relationship between the price of raw sugar and the wholesale and retail price of refined sugar. The findings of such studies are tempered by other analyses that suggest a more complicated picture.

"The impact of sugar price increases on the ultimate retail price of products containing sugar may be dampened by many things, including product shelf life, pricing or markup practices, sugar content of food and beverage products, and seasonality of demand," he says.

"It also appears that changes in the cost of these foods are related more closely to the price of inputs like energy, transportation, and wage rates than to wholesale sugar prices in the short run."

Pointed Questions

The questions being posed in this year's farm bill debate are the most pointed since a decade ago. At that time, with tight sugar supplies and U.S. prices topping 57 cents a pound in November 1974, critics of sugar price supports convinced Congress not to renew them.

World prices since then have held true to the historical pattern; namely, that sugar spikes, or sharp price hikes, occur only intermittently. Most years are characterized by low prices. For that reason, U.S.

support programs were reinstated in 1977 and have continued each year—except on the 1980 crop when world prices were high.

USDA has set a target price for raw cane sugar since 1981. The target varies from year to year, but is above the purchase or loan rate.

"This higher price is considered by USDA to be the minimum market price needed to discourage sale or forfeiture of any sugar to the CCC," Barry says.

So far, at least, the target price system has met its objective.

"The sugar support program under the 1981 farm act has operated without any sugar being sold to the CCC. Market prices were high enough to prompt processors to sell their sugar in the open markets. All loans were repaid to the federal government with interest," says Barry.

Under the loan program for 1983/84, 1.3 million tons of beet sugar were placed under loan at a value of nearly $525 million. For cane sugar, some 355,000 tons were put under loan at a value of $125 million.

The HFCS Challenge

Sugar policy would probably be a simpler matter if it did not have to contend with declining consumption. Since 1977, domestic sugar consumption has fallen more than 2 million tons, declining from 11.1 million tons to 8.9 million in 1983.

"Steady improvements in quality and product control of HFCS, as well as lower cost and price, have swung industrial sweetener users in favor of HFCS," says Barry. By 1983, HFCS consumption had reached 30.7 pounds per capita, up from 9.5 pounds in 1977.

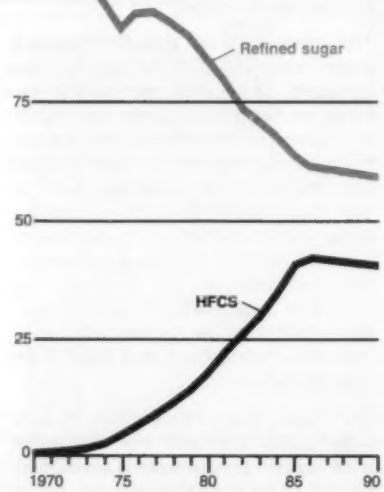
"However, by 1986, the HFCS revolution will likely be over," says Barry. "HFCS displacement of sugar should end, and sugar use could stabilize at about 7.8 million tons, raw value. HFCS would then constitute about 40 percent of the total sugar-HFCS consumption."

Sugar use is declining, with consumption down more than 2 million tons since 1977.

Having absorbed the competition from HFCS, the sugar industry is also taking steps to prevent further erosion of its market at home.

A recent advertising campaign citing the "natural" advantage of sugar over other sweeteners is considered by many as the start of a direct counterattack by the sugar industry on competitors such as aspartame and saccharin. The campaign is also intended to respond to charges about sugar's effects on health and diets.

One of Sugar's Major Problems Is Reduced Demand, But the Gains for HFCS May Soon Be Leveling Off



1984 estimated; 1985-90 projected.

The decline in sugar's share of the domestic sweetener market has occurred at the same time that world sugar surpluses have mounted. At the end of crop year 1983, says Barry, projected world ending stocks were almost 41 percent of world consumption, "far exceeding the stock levels of about 25 percent of consumption that are customarily associated with stable sugar prices."

Meanwhile, he adds, world sugar production is likely to expand in the 1984/85 season because of somewhat better weather as well as continued price supports, subsidies, and trade agreements in major producing countries.

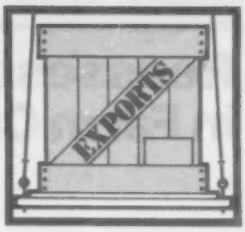
Given all these issues, Barry notes, policymakers face some hard choices.

"Although sugar producers and processors have benefited from the sugar program and taxpayers have not incurred any cost through purchases of sugar by the CCC, consumers would likely have paid less for sugar had domestic prices been allowed to fall in line with world free market prices," he says.

"Yet without a sugar program, the domestic sugar industry would be subject to the full force of world sugar price swings, historically characterized by short periods of high prices and long periods of low prices. History has shown that once processing facilities are closed, they are unlikely to be reopened when prices are momentarily high because of the substantial investment and time lags involved. The current world price is substantially below the estimated operating costs of domestic sugar producers and processors. It's also well below the prices received by world market suppliers who, like U.S. growers, are almost all receiving some form of government subsidy or trade preference." □

[*Based on information provided by economist Robert Barry of the National Economics Division, Economic Research Service.*]

REPORTS IN THE NEWS



Boosting Trade Through Aid

It's no secret that U.S. agricultural exports have been sagging in recent years, and concerns are now focused on turning the tide.

Export promotion is one way, but not the only one, according to researcher Philip Abbott. He says that food, financial, and technical assistance to some less developed countries may be another way of bolstering our exports.

Providing aid to other countries so they can buy our farm products may appear to be entering through the back door, but Abbott says there are good reasons such a strategy is important.

Abbott points out that less developed countries accounted for about half the growth in world cereal imports during the 1970's. And trade is a two-way street. "We can sell our agricultural exports to other countries only if they have foreign exchange, usually from selling their own products to industrialized nations," Abbott says.

The world recession helped to shut down this process. The result: Many less developed countries, already facing huge trade deficits and shortages of foreign exchange, have cut their agricultural imports.

Unless cash-short less developed countries increase their exports and obtain food and financial aid, their agricultural imports will grow much more slowly in the next decade than in the last.

While many face long-term problems, Abbott says, a few appear to be in short-term liquidity crises. "If their export growth resumes, so will their agricultural imports," Abbott says.

He identifies five countries crucial to agricultural trade over the next decade—China, India, Brazil, Mexico, and Nigeria.

***Foreign Exchange Constraints to Trade and Development** by Philip C. Abbott. (Published November 1984; 53 pages of text and tables; GPO Stock No. 001-019-00340-5; $2.25.)*

Export Profile: Cameroon

U.S. farmers may soon be selling more to the West African nation of Cameroon—where consumers have more money because large oil revenues are boosting the country's economy.

"Cameroon offers a chance for U.S. exporters to increase their sales of wheat, rice, fish, and canned meats," says economist Mary Burfisher in a recent ERS report.

She suggests that if U.S. marketers compete aggressively, they should be able to boost their sales sharply from the $6-8 million annual level, which is about 5 to 8 percent of Cameroon's total agricultural imports. "Demand for wheat, for example, could lead to imports of more than 570,000 metric tons by 1990, more than five times the levels reached from 1978 to 1980," she says.

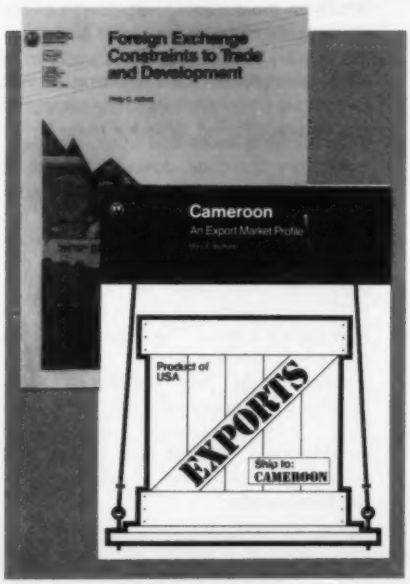
Prospects for other commodities are also good.

Rice imports from all sources could surpass 135,000 tons by the end of the 1980's, up almost fivefold from 28,020 tons annually in 1978-80. Fish imports could more than double from 14,613 tons to almost 38,000 by 1990. And demand for imported canned meats could more than double to about 2,800 tons by 1990.

What strategy should U.S. exporters follow to boost sales and their share of the Cameroon market?

"Work with established Cameroon businesses," advises Burfisher. "Cameroon has liberal economic policies that are favorable to foreign investors."

***Cameroon: An Export Market Profile** by Mary E. Burfisher. (Published September 1984; 32 pages of text, charts, and tables; GPO Stock No. 001-019-00349-9; $2.00.)*



Name _____
Address _____
City, State, Zip _____

Mail order form to:
Superintendent of Documents,
U.S. Government Printing Office,
Washington, D.C. 20402

For faster service, call GPO's order desk at (202) 783-3238 and charge your purchase to your VISA, MasterCard, or GPO Deposit Account. Bulk discounts available.

Please send me ____ copies of
Foreign Exchange Constraints to Trade and Development
SN 001-019-00340-5 $2.25

Please send me ____ copies of
Cameroon: An Export Market Profile
SN 001-019-00349-9 $2.00

Total charges $____

☐ Enclosed is $____ (check or money order payable to the Superintendent of Documents. Please do not send cash or stamps). Add 25% for any foreign address.

☐ Charge to my Deposit Account _____

☐ Charge to ☐ Visa or ☐ MasterCard

Account No. _____
Expiration date _____
Signature _____

For Office Use only	
Quantity	Charges
Enclosed	
To be mailed	
Subscriptions	
Postage	
Foreign handling	
MMOB	
OPNR	
UPNS	
Discount	
Refund	

Reassessing the Federal Role in Farm Credit

Federal credit programs for agriculture began several decades ago. Today, these programs are part of a debate over the appropriate role of federal intervention in financial markets.

Significant changes have occurred both in agriculture and in the performance of financial markets since the 1930's. The time may have come, say analysts, for reevaluating Uncle Sam's role in the money lending business. That role is a major one, particularly in agriculture.

In fiscal 1984, about $13 billion in loans was disbursed to borrowers by the Farmers Home Administration (FmHA) and the Commodity Credit Corporation (CCC). Lending by the banks of the Farm Credit System (FCS) totaled around $64 billion.

Almost half of outstanding farm debt is owed to these federal or—in the case of FCS—federally sponsored lenders. On January 1, 1985, the banks of the FCS held an estimated 32 percent of total farm debt, FmHA nearly 12 percent, and the CCC about 4 percent. The rest was in the hands of commercial banks, merchants and dealers, life insurance companies, and other private lenders.

Federal Land Banks, part of today's FCS, began during World War I. The CCC and the predecessor of FmHA were set up in the 1930's.

"These institutions dramatically changed the credit situation and the flow of funds and resources to agriculture," says economist Ron Meekhof of USDA's Economic Research Service. Meekhof recently completed a major policy background paper reviewing federal credit programs for agriculture.

"The programs," he continues, "helped finance the technological revolution and capital restructuring of U.S. agriculture between the 1930's and 1970's."

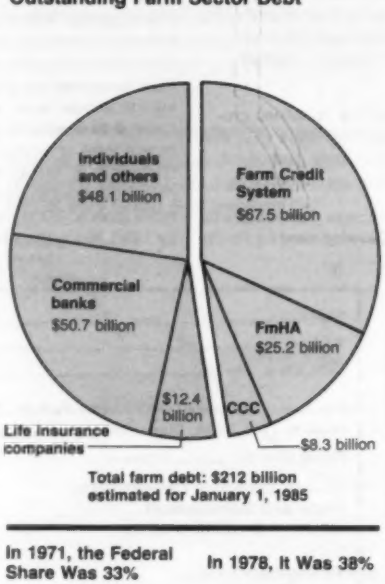
More Credit, Or Less?

Those who support current farm credit policies point to this record of accomplishment, arguing that generous federal credit is now as important as ever because of depressed conditions in agriculture.

"In this year's deliberations over a new farm bill, lawmakers may well consider proposals for additional short-term credit assistance for farmers," notes Meekhof. "However, many question whether federal credit assistance measures developed for agriculture in times past continue to be appropriate for contemporary conditions."

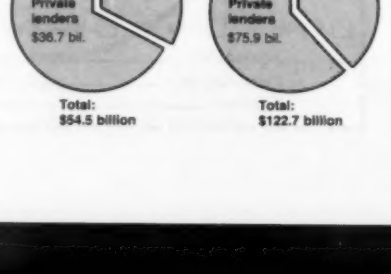
These measures have been challenged on the basis of cost, need, economic efficiency, and consequences:

Together, the Farm Credit System, FmHA, and CCC Hold Nearly Half of Outstanding Farm Sector Debt



Total farm debt: $212 billion estimated for January 1, 1985

In 1971, the Federal Share Was 33% **In 1978, It Was 38%**



- The cost challenge is related to concerns about federal budget deficits and the potential for trimming the outlays required to provide government credit. Although most loans are repaid, costs are associated with the administration of credit programs, losses from defaulted loans and loan collections, and subsidies stemming from below-market interest rates and extended loan maturities. The subsidies on the direct federal loans to agriculture from FmHA and CCC in 1983 were calculated at more than $1 billion.

- Need is a difficult question. One view is that these programs have accomplished their objectives, that agriculture generally is no longer a disadvantaged sector in need of preferential credit assistance, and that ample credit is available through private lenders.

- The economic efficiency of these programs is sometimes challenged by those who contend that the free market is better at rationing credit. Programs that allocate credit to one sector tend to restrict credit to other industries that—in economic terms—may be more "deserving" because they can generate a higher return on the dollar. "The government is a very safe investment," says Meekhof, "so it can attract loanable funds at a lower interest rate. This redirects capital away from other sectors of the economy and raises interest rates for them."

- Another question open to debate is whether preferential credit programs have become counterproductive for agriculture, attracting excess resources into the sector and contributing to the problems that built up during the 1970's—problems for which farmers are now paying a price. The argument is that virtually unlimited access to low-cost federal credit has depressed farm returns by encouraging overcapitalization, overexpansion, excessive indebtedness, inflated land values, and greater concentration of ownership in the farm sector.

Others, of course, reply that large-scale federal lending helped preserve family

farms even as it financed much of the modernization that made U.S. agriculture so productive. The programs, they add, evolved because they were needed and cannot be blamed for the basic market forces, such as the slowdown in demand growth, that are now hurting farmers.

Genesis of Farm Credit Programs

"These programs were created to respond to institutional and economic factors that prevented the farm sector from having adequate access to credit," says Meekhof.

Historians point out that economic conditions in agriculture were severely depressed between the two world wars. Farming was very risky, and lenders shied away from it.

Farm mortgages often matured in just 5 years and were difficult to renew, a situation that made it difficult for tenant farmers and others to become owners. Short-term loans seldom exceeded 90 days, a period poorly geared to the annual production cycle of most farmers. Interest rates on farm loans were high and varied sharply from one region to another, depending largely on distance from major financial markets. The highest rates were in the South and West, where rural banks were most isolated.

Federal credit and other programs provided the needed relief.

"There is little doubt that the federal credit programs have been successful in achieving their original objectives," says Meekhof. "The problems associated with farm tenancy have been largely resolved. Despite the current economic hardships for many farmers, incomes and returns in the sector are now generally comparable to those in nonfarm sectors. Regional differences in interest rates have largely disappeared, and the farm sector has a reliable and stable supply of credit."

Agricultural finance experts agree, Meekhof adds, "that it is no longer generally true that farmers are seriously disadvantaged in their access to loanable funds relative to borrowers in other business sectors." This raises the question of how much preferential credit treatment for agriculture is still justified.

No Easy Answers

Last August, the Office of Management and Budget issued revised guidelines on credit policy for federal agencies. Among the stated goals: to get a better measure of the costs of the programs, to link interest rates charged by federal credit agencies to market rates, to pass on the cost of defaults to borrowers, and to encourage the use of private lenders as the primary source of credit. The specific requirements were viewed as a tightening up of the principles governing federal credit programs for agriculture and other sectors of the economy.

One rationale for a federal role is imperfections—artificial barriers—in credit markets that deny adequate credit to agriculture, or any other sector. Another is social priorities and objectives that even a well-working commercial credit market would not serve.

(continued on next page)

How the Credit Programs Work

Each of the three major federal or federally sponsored farm lending institutions works in a different way and poses a different set of policy questions regarding costs and benefits.

The *Commodity Credit Corporation* lends to farmers as part of its wider responsibilities under commodity programs. Farmers participating in commodity programs can put their crops under loan with the CCC and receive the loan rate set by law or by the Secretary of Agriculture. They can later redeem the loan by selling the commodity, or they can allow the loan to expire, forfeiting the crop to the CCC and keeping the money received from the government.

"The CCC loan program," says economist Ron Meekhof, "provides farmers with flexibility to develop their own marketing strategies without having to sell crops at harvest to pay off production loans or obtain operating funds. Moreover, in some years, the infusion of large amounts of CCC money into rural areas permits farmers to repay other lenders and adds to the liquidity of commercial banks."

Since 1977, producers of several commodities have had the extra option of extending the short-term loan into a 3-year contract through the farmer-owned reserve.

One issue involving lending by the CCC is how to set interest charges on loans. For about 40 years, interest rates on CCC loans were generally around 3 or 4 percent, much lower than rates of other lenders. Since the mid-1970's, CCC rates have been tied to the cost of obtaining funds from the U.S. Treasury.

The *Farmers Home Administration* offers farmer, housing, and rural community loan programs, including direct loans and guarantees for loans made by commercial lenders to less creditworthy borrowers. About half its lending volume is under the farmer programs, where it is generally viewed as the lender of last resort for those who cannot obtain credit from private sources.

FmHA has about 270,000 borrowers under its farmer loan programs. Most of the emergency, farm ownership, and operating loans to farmers are made at lower interest rates and longer maturities than commercial loans, Meekhof notes. These special terms constitute subsidies, which have become the focus of some of the cost concerns voiced about federal credit pro-

"There are no definitive studies of credit market performance which address how well farm credit markets work," says Meekhof. "However, much of the evidence suggests that market failure no longer constitutes a legitimate premise for a major federal role in agricultural credit markets."

The question of social priorities is steeped in a well-established tradition of maintaining family farms, and the issue is not purely emotional. It involves, for example, the benefits of maintaining a pluralistic agriculture.

Yet some analysts contend that federal credit policies have contributed to concentration in agriculture—fewer and larger farms. More study is probably needed, according to Meekhof, on the costs, benefits, and impacts of federal lending.

If the profits from farming are too low to attract enough "affordable" credit from private lenders, cutbacks in federal credit programs may take us in the direction of survival of the fittest. On the other hand, large amounts of subsidized federal credit may further erode farm returns by encouraging more investment and increased production by those who can earn a profit in agriculture.

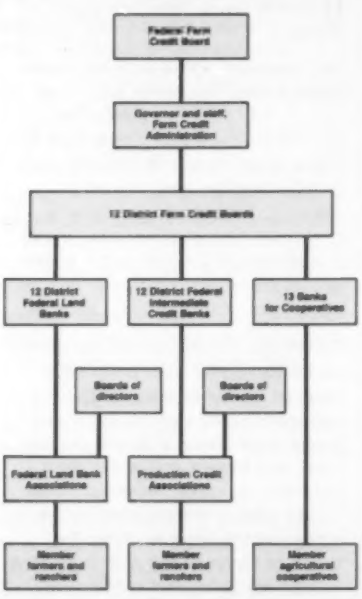
These policy dilemmas make the credit issue a difficult one, says Meekhof, but it should not be assumed that the issue can be dealt with only by trimming, maintaining, or even expanding credit programs. "It may be more effective," he says, "to deal with the underlying causes of agriculture's financial problems rather than with the symptoms." □

[Based on material provided by economist Ron Meekhof, who heads the farm finance group in USDA's Economic Research Service. For a free copy of his report, ***Federal Credit Programs for Agriculture,*** *AIB-483, write to Background Papers, USDA-EMS, Room 0054-South, Washington, D.C. 20250. Ask for the report by title.]*

grams. Cost concerns also raise questions about who should be served by these programs.

"The welfare aspects of the program have declined as FmHA assistance has generally and gradually evolved toward providing credit to all farmers who, for various reasons, are unable to obtain credit elsewhere. Subsistence and large-scale operations are equally eligible," says Meekhof.

Structure of the Farm Credit System


Federal Farm Credit Board
Governor and staff, Farm Credit Administration
12 District Farm Credit Boards
12 District Federal Land Banks
12 District Federal Intermediate Credit Banks
13 Banks for Cooperatives
Boards of directors
Boards of directors
Federal Land Bank Associations
Production Credit Associations
Member farmers and ranchers
Member farmers and ranchers
Member agricultural cooperatives

The *Farm Credit System* is a family of bank cooperatives operating under the regulatory supervision of the Farm Credit Administration, an independent government agency. It is still called a federally sponsored credit agency, even though it is now privately owned by its members (mostly borrowers). Original funding came from the federal government, but all the capital had been repaid by 1968.

"The initial role of the FCS, which began back in 1916, was to address social concerns arising from growth in farm tenancy by improving access to long-term financing. Its clientele now includes all producers who can qualify on commercial terms," says Meekhof.

Because of the special federal relationship that FCS is perceived to have, it can obtain loanable funds in financial markets at rates lower than those paid by most other private lenders. It also enjoys exemptions from many regulations covering commercial banks and certain tax exemptions. In recent years, questions have been raised about whether special advantages are still justified for the FCS and similar federally sponsored lending institutions.

"These questions are motivated by concern about distortions in the allocation of funds in financial markets and the need to reduce unfair competition with private lenders," says Meekhof.

Proposals have been made in the last few years to rescind the tax-exempt status of FCS land and intermediate credit banks, restrict the use of FCS securities, allow state and local taxation of income from the sale of FCS securities, and subject the FCS to the same regulations that govern most commercial lenders.

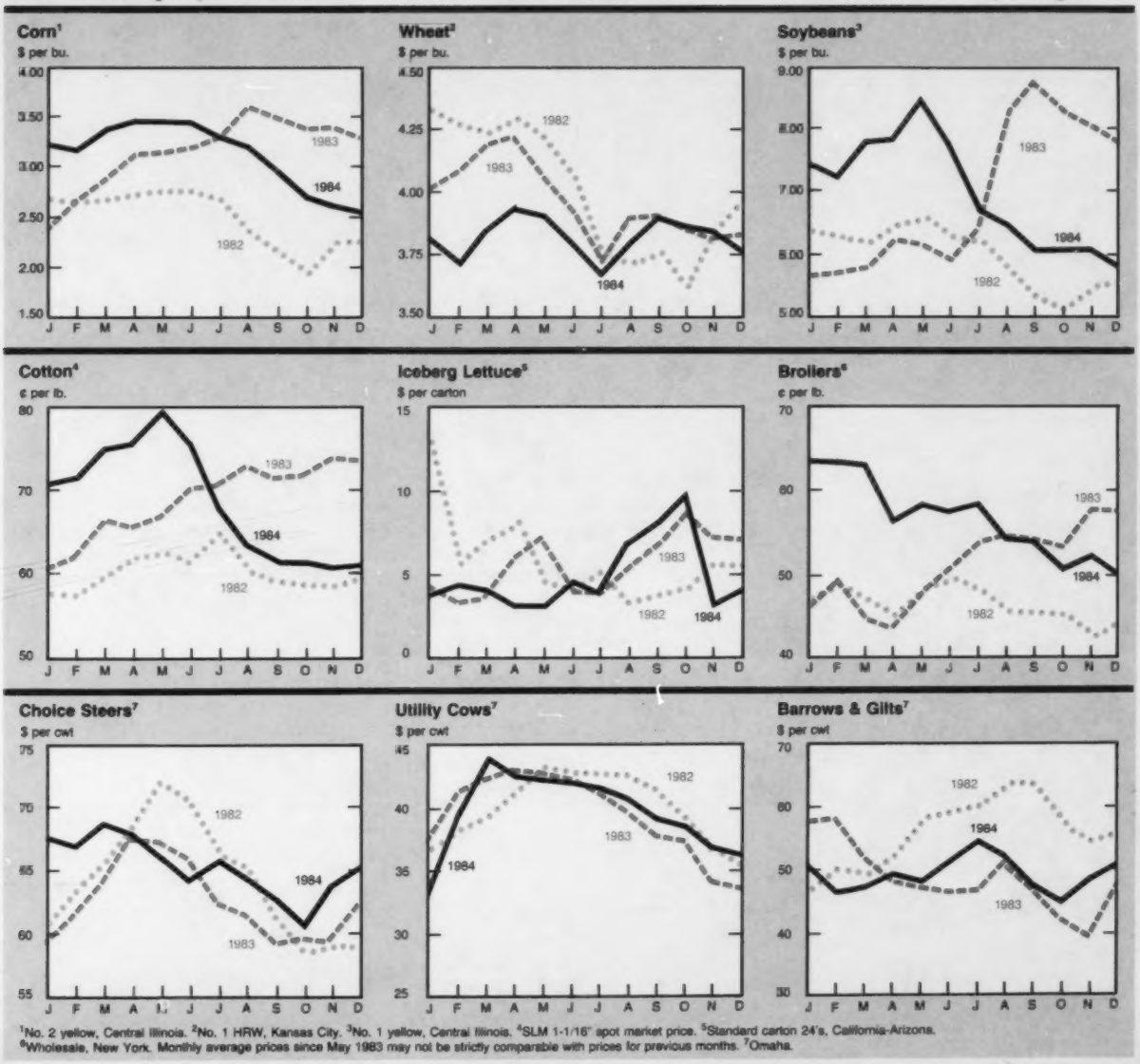
"On the other side, FCS proponents argue that loss of agency status would severely hamper the FCS in carrying out its role of providing adequate financing for agriculture," says Meekhof.

FARMLINE TRENDS

Monthly Price Monitor

USDA's December 1984 index of farm prices was down 4.3% from its year-earlier level. Corn was down 71 cents a bushel from its December 1983 price, wheat was off 9 cents to $3.76, and soybeans were selling for just $5.88, down $1.91. The same end-of-year comparisons had cotton down 12.5 cents a pound, and lettuce down $2.95 per carton. Among meat animals, broilers slipped to about 50 cents a pound, down from 57.8 cents in December 1983.

Other prices were up. Choice steers at Omaha were going for $65.31 per cwt this past December, up $2.66 from 1983; utility cows were up $2.86; and barrows and gilts were up $2.87 to $50.98 per cwt. All prices are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16" spot market price. [5]Standard carton 24's, California-Arizona. [6]Wholesale, New York. Monthly average prices since May 1983 may not be strictly comparable with prices for previous months. [7]Omaha.

United States
Department of Agriculture

Washington, D.C.
20250

OFFICIAL BUSINESS
Penalty for Private Use, $300

To stop mailing ☐ or to change your address ☐ send mailing label on this magazine and new address to *FARMLINE*, Rm. 400 GHI Bldg., USDA, Washington, D.C. 20250.

Postage and Fees Paid
United States
Department of Agriculture
AGR-101

Third Class Bulk

Tired of Borrowing?

Or waiting for a copy to be passed around? Subscribe now for your own up-to-date copy of FARMLINE each month. Just use the order form below. If you're renewing a subscription, please send along the coded address label pasted above so you can be credited for any issues still due on your expiring subscription order.

For faster service, call the Government Printing Office order desk at (202) 783-3238. Ask for a one-year subscription to *FARMLINE*, and charge it to your Visa, MasterCard, or GPO Deposit Account.

Enclosed is $ _____ ☐ check, ☐ money order, or charge to my Deposit Account No.

☐☐☐☐☐☐☐–☐

Order No._____

Credit Card Orders Only

☐ Total charges $_____ Fill in the boxes below.

Credit Card No. ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

☐ Expiration Date Month/Year ☐☐☐☐

Please enter my subscription to FARMLINE (FRMLN) for one year at $18 Domestic, $22.50 Foreign.

Make checks payable to: Superintendent of Documents

Name—First, Last

Company name or additional address line

Street address

City State ZIP Code

(or Country)

PLEASE PRINT OR TYPE

Mail to: Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

For Office Use Only

Quantity	Charges
_____ Enclosed	_____
_____ To be mailed	_____
_____ Subscriptions	_____
Postage	_____
Foreign handling	_____
MMOB	_____
OPNR	_____
_____ UPNS	
_____ Discount	
_____ Refund	